

# PHILIPPINES ECONOMIC WRAP-UP

JUNE 10-16, 2000

## ----- Summary -----

This week we focus on developments in the banking sector, with reports on non-performing loan ratios, a revision to the capital build-up program imposed by the central bank, and a few other bank notes.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our May Economic Outlook, which can also be found on our web site.

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## ----- Market and Policy Developments -----

### FOREX REPORT -----

The Philippine peso traded in a fairly narrow band this week as anxious traders continue to look for clear signs of the future direction of the economy. Hopes for interest rate stability in the U.S. balanced fears of unrest in regions of Mindanao. Overall, the Philippine peso ended the week at P42.595/US\$, somewhat lower than its P42.465/US\$ close on June 9.

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Exchange Rate Tables  
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Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
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MAY 08	41.274	41.280	45.0
09	41.279	41.279	57.5
10	41.353	41.370	113.5
11	41.398	41.430	93.5
12	41.474	41.500	119.5
MAY 15	41.589	41.560	135.5
16	41.613	41.630	86.6
17	41.662	41.665	145.5
18	41.727	41.730	183.0
19	41.682	41.670	103.9
MAY 22	41.801	41.915	157.7
23	42.158	42.370	161.5
24	42.749	42.740	119.3
25	43.159	43.400	206.7
26	42.976	42.720	170.7
MAY 29	42.649	42.710	163.7
30	42.829	42.750	92.4
31	42.649	42.620	146.5
JUN 01	42.633	42.580	104.5
02	42.465	42.465	113.1
JUN 05	42.421	42.320	147.7
06	42.233	42.380	199.2
07	42.417	42.360	131.3
08	42.475	42.480	101.0
09	42.521	42.465	99.7
JUN 12	Markets Closed		
13	42.400	42.425	105.0
14	42.415	42.420	116.5
15	42.465	42.535	63.5
16	42.611	42.595	102.0

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Source: Bankers Association of the Philippines

# CREDIT MARKET REPORT

Interest rates declined across the board at the Treasury auctions this week and the Bureau of Treasury made full awards. (Both auctions were held a day late because of the June 12 independence day holiday). Analysts attributed the softening to reduced fears of further U.S. rate increases. Yields on the 91-day T-bills moved sideways to 8.909% (from 8.908% a week earlier). At the June 13 auction, yields on the 182-day T-bills declined 14.5 basis points to 10.137% and yields on the 364-day T-bills fell 26.7 basis points to 10.944%. The June 14 auction of seven-year Treasury bonds saw rates decline 37.5 basis points (from a month earlier) to 13.5%. A total of P5.9 billion in bids were submitted and all P3.0 billion of the bonds were sold.

## Domestic Interest Rates (in percent)

### Treasury Bills

Auction Date	91 days	182 days	364 days
MAY 08	8.746	9.825	10.800
MAY 15	8.690	9.900	10.963
MAY 22	8.975	10.375	11.423
MAY 29	8.968	(no sales)	11.396
JUN 05	8.908	10.282	11.211
JUN 13	8.909	10.137	10.944

Source: Bureau of the Treasury

### Prime Lending Rates of 16 Expanded Commercial Banks

Date of Survey	Average	Range
MAY 09	11.0068	9.50 - 13.375
MAY 18	11.0078	9.50 - 13.375
MAY 25	11.1516	10.00 - 13.750

JUN 01	11.1416	10.25 - 13.625
JUN 08	11.1228	10.00 - 13.625
JUN 14	11.1229	10.00 - 13.625

Sources: Bangko Sentral ng Pilipinas; Press reports

#### STOCK MARKET REPORT

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A small rally in tech-related blue chips late in the week gave some hope to traders that the doldrums of the recent past have come to an end. The 33-share Philippine Stock Index (PHISIX) ended the week up 3.15% at 1569.95.

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#### Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded

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Date	PHISIX Close	Value (Million pesos)
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MAY 08	1518.61	828
09	1523.43	818
10	1522.96	4599 a/
11	1505.21	778
12	1539.31	1064
MAY 15	1517.09	1401
16	1507.98	1023
17	1534.05	1328
18	1521.36	539
19	1478.68	1162
MAY 22	1412.09	935
23	1404.67	1143
24	1418.79	1266
25	1426.62	1267
26	1427.26	2540
MAY 29	1482.77	1107
30	1470.07	746

31	1478.76	623
JUN 01	1470.53	902
02	1512.75	1135
JUN 05	1552.65	1136
06	1562.38	1222
07	1522.33	796
08	1537.13	598
09	1521.93	977
JUN 12	Markets Closed	
13	1522.15	950
14	1524.21	1468
15	1565.69	1200
16	1569.95	1225

a/ P3.9 billion represented block sale of Bank of Nova Scotia's shares in Solid Bank to Metrobank.

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Source: Philippine Stock Exchange

#### NON-PERFORMING LOANS UP AGAIN

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The commercial banking system's overall non-performing loan (NPL) ratio inched up for a fourth consecutive month to 14.46% as of April 2000. The increase from March's 14.06% rate reflected a P2.7 billion (1.3%) month-on-month expansion in the NPL level and a P23.4 billion (1.5%) decline in outstanding loans. Non-performing assets (NPA's, the sum of NPL's and foreclosed assets) constituted nearly 12% of total commercial banking system assets (up from 11.8% in March). Restructured loans -- without which NPL ratios would be higher -- also continued to increase and equaled 5.3% of outstanding commercial bank credits as of April.

Total loans have been up year-on-year since November 1999, breaking from eleven months of consecutive year-on-year declines. However, the year-on-year expansion -- estimated at 2.7% in April -- has been modest thus far. Bankers generally do not expect loans this year to expand by more than 10%, as banks continue to clean up their portfolio of bad debts and foreclosed properties.

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# SELECTED INDICATORS FOR COMMERCIAL BANKING SYSTEM

	April 2000 -----	March 2000 -----	April 1999 -----
Amounts (P Billions)			
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Total Loan Portfolio (TLP) a/	1,505.7	1,529.1	1,465.2
Non-Performing Loans (NPL)	217.8	215.1	212.1
Loan Loss Reserves (LLR)	95.2	94.7	70.5
Restructured Loans (RL)	79.6	78.7	52.5
Foreclosed Assets (FA)	100.4	102.4	60.9
Non-Performing Assets (NPA)	318.2	317.4	273.0
Total Assets (TA)	2,659.3	2,682.3	2,483.7

## Ratios (In %)

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NPL/TLP	14.46	14.06	14.48
RL/TLP	5.29	5.14	3.59
LLR/NPL	43.72	44.01	33.21
LLR/TLP	6.32	6.19	4.81
FA/TA	3.78	3.82	2.45
NPA/TA	11.97	11.83	10.99

a/ Includes interbank loans

Source: Bangko Sentral ng Pilipinas

## BANGKO SENTRAL TO SCRAP YEAREND CAPITAL INCREASE

According to Bangko Sentral officials, the Philippine Monetary Board (the BSP's highest policymaking body) has decided not to implement the last phase of a three-year minimum capitalization build-up program imposed on banks since 1998. The most recent minimum capital increase took effect end-January 2000; the third and last phase was scheduled to go into effect at the end of the year. Instead, the Bangko Sentral is working on guidelines and regulations -- which it hopes to implement before yearend -- for Philippine banks to adopt risk-weighted capital adequacy standards according to the Bank for International Settlements (BIS) framework. This would include allowing banks to include certain debt instruments as "tier 2" capital. Current practice allows

only "tier 1" capital. The Bangko Sentral had long wanted to adopt internationally-accepted capital adequacy standards. It had been constrained from doing so until the May 2000 enactment of the "General Banking Law of 2000" -- which updated the country's five-decade-old General Banking Act.

#### BANK NOTES

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Urban Bank: Bank of Commerce is trying to rope in major depositors as shareholders in its proposed rehabilitation of closed Urban Bank. Bancommerce wants big clients such as Meralco, Petron and San Miguel to convert at least P750 million of deposits into convertible preferred shares. Smaller depositors would convert a further P250 million to equity and the Social Security System is being asked to buy P600 million of the preferred shares. Bancommerce, itself, does not apparently plan to put any cash into the rehabilitation. BSP and the Department of Justice meanwhile are promising to file criminal fraud charges against Urban Bank's managers.

Philippine National Bank: The collapse of the government's plans to auction a combined 80% stake in PNB has left everyone scrambling. The government suggested it might sell its 30% stake separately but Rizal Commercial Banking Corporation (RCBC), the only qualified bidder, has stated that it is not interested in a non-controlling stake in PNB. Meanwhile, Lucio Tan told the press he doesn't have the money to buy the government's stake and continues to insist that he wants to sell the 46% stake he claims to control. The World Bank agreed under a banking sector restructuring loan to give the government another year to complete the sale. World Bank representative Vinay Bhargava noted that the Philippines had met the other three conditions attached to the loan.

Orient Bank: The Philippine Deposit Insurance Corp. (PDIC) reported that it recently filed 24 new cases against the owners and several senior officers of Orient Bank. PDIC's legal counsel said that these cases involved some P180 million (US\$4.2 million) in "fictitious" loans to certain individuals. PDIC reportedly discovered checks representing the loan proceeds made out to Orient bank owners and related

parties, rather than to the alleged borrowers. The supposed loan recipients have since executed affidavits denying receiving the loans. Orient Bank closed in 1998, the first commercial bank to do so since the Asian crisis erupted. Subsequent investigations indicate that the bank was a victim of excessive lending to owners and related parties.